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30.10

About the Capital Assets Policies

30.10.05 Introduction

The Office of the State Controller is responsible for designing and maintaining the official Statewide accounting systems, which ensure proper financial management and adherence to standards. The State Controller is authorized to approve any accounting system used in State government, to ensure that the system is capable of transmitting accurate and timely data to MFASIS and that the system meets both State and federal, financial laws and regulations.

The Fixed Assets Subsystem is an integrated component of the MFASIS system. Its purpose is to provide a uniform and fully automated vehicle to account for and report on capital assets owned by State agencies. This capital asset policy covers items relating to:

- Internal Control
 - Accountability and Security
 - GAAP Reporting
 - Inventory
 - Audit Preparation
- Asset Acquisition and Valuation
 - Land
 - Improvements other than Buildings
 - Buildings
 - Equipment and Furniture
 - Vehicles
 - Certain Intangibles/Easements
 - Infrastructures
 - Historical Treasures and Works of Art
 - Construction In Progress
- Depreciation and Useful Lives
- Asset Disposition

This policy includes a glossary of terms defining items in accordance with capital asset management and reporting responsibilities. It is our intent to provide updates to this policy as needed. For this reason it may be more useful for the reader to access it frequently on the internet at <http://www.state.me.us/bac/> rather than printing it for distribution.

The Office of the State Controller intends to provide training to appropriate department managers and key personnel in the implementation and maintenance of the Fixed Assets Subsystem, including related policies and procedures.

This policy attempts to be all-inclusive, providing the State of Maine's capital assets policies found in Statute, Controller's Memos and other sources of information. The goal of the guide is to be a reference for those in State Government who are responsible for capital asset management, including but not limited to, Department Heads, Chief Fiscal Officers, Property Officers, and GAAP liaisons.

30.10.10 Policies in this chapter are minimum standards

The purposes of a capital asset policy are: 1) to provide control and accountability over capital assets, and 2) to gather and maintain information needed to prepare financial statements.

The policies and procedures in this chapter are the minimum requirements for capital assets that State agencies must meet. An agency may maintain its capital asset inventory system in greater detail, or use additional supporting documentation, as long as the agency meets the required minimum standards.

30.10.20 Authority for these policies

30.10.20.a The Office of the State Controller is required by Title 5, Chapter 143, Section 1541, to establish a Generally Accepted Accounting Principles (GAAP)-based accounting system and procedures to ensure the State's assets, including capital assets, are properly accounted for, and that the State of Maine prepares and completes all financial statements in accordance with all governing rules, statutes and GAAP.

30.10.20.b Title 5, Chapter 143, Section 1541, Subsection 14 requires the Office of the State Controller to maintain the official statewide system for fixed assets. State agencies are required to keep this information up to date and to reconcile their assets annually.

The purpose of the State of Maine's policy is to provide agencies with guidance for the appropriate classification and processing of capital asset transactions in compliance with statutes. The term "agency" includes but is not limited to State agencies, boards, offices, institutions, departments,

divisions, bureaus, constitutional offices, independent agencies, commissions and elected offices of the State of Maine within the Executive, Legislative, and Judicial Branches.

30.10.30 Applicability

- 30.10.30.a All agencies of the State of Maine must comply, unless otherwise exempted by statute.
- 30.10.30.b Agencies may request a waiver from complying with specific requirements of this chapter. Refer to Subsection 1.10.40 for information on how to request a waiver.

30.10.40 Agency responsibilities

The agency head must designate, in writing, one or more Property Officers who are responsible for maintaining and safeguarding their agencies' capital assets.

Agencies are responsible for developing internal control policies and procedures to protect and control the use of all capital assets. Please refer to Chapter 20 for Internal Control guidance.

30.10.50 Policies differ in cases of absolute title and residual title

When the agency has **absolute title** of a capital asset:

- Include the value of the capital asset in the annual financial statements, and
- Include the capital asset in the capital asset inventory system, if inventorial.

When an external entity, such as the federal government, retains **residual title** to a capital asset:

- Include the capital asset in the capital asset inventory system, if inventorial. This includes capital assets on lease or long-term loan.

Temporary custodial responsibility or title shall not be considered absolute for the purposes of this chapter.

30.10.60**Assets in use by subtenant agencies**

The purchasing agency is the owner of, and has responsibility for the proper accounting and reporting of, capital assets acquired through a capital project. If the authorizing legislation for a capital project provides capital assets for more than one agency, or for agencies other than the purchasing agency, the purchasing agency may, by agreement, condition the use of such capital assets by the subtenant agency. This agreement could include making the subtenant agency responsible for all reporting requirements for those capital assets. Upon completion of the agreement, all ownership rights and responsibilities revert to the purchasing agency.

30.20

Valuing, Capitalizing and Depreciating Capital Assets

30.20.10 How to value capital assets

Capital assets should be valued at cost, plus all ancillary charges necessary to place the asset in its intended location and condition for use.

30.20.10.a Determine the value of capital assets in the following manner:

Purchased assets - Use historical costs including all non-refundable purchase taxes (e.g., sales taxes), plus all appropriate ancillary costs less any trade discounts or rebates. If the historical cost cannot be determined, use a reasonable estimated cost.

If land is purchased, the capitalized value is to include the purchase price plus costs such as legal fees, filling, and excavation costs incurred to put the land in condition for its intended use.

Building values should include both acquisition and capital improvement costs. Capital improvements include structures (e.g., office buildings, storage quarters, and other facilities) and all other property permanently attached to, or an integral part of, the structure (e.g., loading docks, heating and air-conditioning equipment, and refrigeration equipment). Agencies have the option of capitalizing buildings by components when the useful lives of the components vary. Buildings owned by proprietary and trust funds are to include net construction period interest in arriving at the building value.

Furniture, fixtures, or other equipment not an integral part of a building are not considered capital improvements and should be classified as equipment. The cost for this asset type reflects the actual or estimated cost of the asset.

Include the cost of extended maintenance/warranty contracts in the asset valuation if the contract is purchased at the same time (or soon thereafter) as the capital asset. Depreciate these contracts over the useful life of the asset. Do not capitalize payments for contracts not purchased at the same time as the capital asset.

30.20.10.b

Self-constructed assets, excluding internally developed computer software - Capitalize all direct costs associated with the construction and agency management costs associated with a construction project. Agency project management costs may be capitalized in one of two ways:

1. Use actual project management costs directly associated with the project; or
2. Apply a percentage of total budgeted project costs. The application rate may or may not be designed to recover total agency project management costs. Exclude indirect costs unless they are increased by the construction.

In proprietary and trust funds, include net interest costs incurred during the period of construction in the capitalized cost of the asset, if material. Capitalized interest on assets constructed with tax-exempt borrowing should be netted against any interest earned on the investment of the proceeds of the related tax-exempt borrowings. Interest costs are not capitalized in governmental funds.

30.20.10.c

Ancillary costs - Normally, ancillary costs should be included in the cost of a capital asset. However, minor ancillary costs, not measurable at the time a capital asset is recorded in the MFASIS Fixed Assets Subsystem, are not required to be capitalized but may be capitalized if the information becomes readily available. Ancillary costs include such items as:

For land and Infrastructure:

- Legal and title fees;
- Professional fees of engineers, attorneys, appraisers, financial advisors, etc.;
- Surveying fees;
- Appraisal and negotiation fees;
- Damage payments;
- Site preparation costs; and
- Costs related to demolition of unwanted structures.

For buildings and improvements other than buildings:

- Professional fees of architects, engineers, attorneys, appraisers, financial advisors, etc.;
- Damage payments;
- Costs of fixtures permanently attached to a building or structure;
- Insurance premiums, interest (refer to Subsection 30.20.10.a), and related costs incurred during construction; and

- Any other costs necessary to place a building or structure into its intended location and condition for use.

For furnishings, equipment, collections, and other capital assets:

- Transportation charges;
- Sales tax;
- Installation costs;
- Extended maintenance/warranty contracts (refer to Subsection 30.20.10.a); and
- Any other normal or necessary costs required to place the asset in its intended location and condition for use.

30.20.10.d **Donated assets** - Use the fair market value at the date of donation, plus all appropriate ancillary costs. If it is not practical to determine the fair market value, use a reasonable estimated cost. If land is acquired by gift, the capitalized value is to reflect its appraised or fair market value at the time of acquisition.

30.20.20 When to capitalize assets

State assets shall be capitalized (recorded in the Fixed Assets Subsystem) according to the following thresholds:

- All land (including ancillary costs);
- The State highway system operated by the Department of Transportation;
- Infrastructure, other than the State highway system, with a cost of \$3,000 or greater;
- All other capital assets with a unit cost (including ancillary costs) of \$3,000 or greater, or collections with a total cost of \$3,000 or greater, unless otherwise noted.

For capital assets acquired by and used in proprietary and trust fund type accounts, record the value of the assets in the fund itself. (Refer to Subsection 85.60.30.b.)

Although small and attractive assets do not meet the State's capitalization policy above, they are considered controllable property for purposes of marking and identifying (refer to Section 30.30), inventory records requirements (refer to Section 30.40), and physical inventory counts (refer to Section 30.45).

Close out Construction in Progress and capitalize total, accumulated costs into the appropriate asset classification when a project is substantially complete, accepted, and placed into service.

30.20.20.a **New acquisitions** – Capitalize new assets that meet the State’s capitalization policy as stated above.

Additions, improvements, repairs, or replacements to existing capital assets are not considered new acquisitions and are discussed below.

30.20.20.b **Additions** – Capitalize expansions of or extensions to an existing capital asset that meet the State’s capitalization policy above.

30.20.20.c **Extraordinary repairs, betterments, or improvements** – Capitalize outlays that increase future benefits for an existing capital asset beyond its previously assessed standard of performance, if they meet the State’s capitalization policy as stated above. Increased future benefits typically include:

- An extension in the estimated useful life of the asset.
- An increase in the capacity or efficiency of an existing capital asset.
- A substantial improvement in the quality of output or a reduction in previously assessed operating costs.

Leasehold improvements that meet the State’s capitalization policy are recorded in the General Ledger as “Leasehold Improvements.”

30.20.20.d **Replacements** – For buildings, improvements other than buildings, and equipment, capitalize the cost of outlays that replace a part of another capital asset when the cost of the replacement is \$3,000 or more *and* at least 10 percent of the replacement value of the asset, or \$100,000, whichever is less.

Example:

A \$9,000 replacement of a heating boiler (which did not meet any of the criteria to be considered a betterment) in a building having a replacement value of \$120,000 would *not* be capitalized. The \$9,000 cost is not at least 10 percent of the building’s replacement value. Had the building’s replacement value been \$90,000 or less, the \$9,000 boiler replacement would have been capitalized.

EXCEPTIONS to this policy are:

- Replacement roof coverings are not capitalized (whether or not the replacement is with superior materials) unless the replacement extends the useful life of the building.
- Replacement floor coverings and window coverings are not capitalized.
- Costs to remodel (convert) a building to a different use, where the remodeling does not extend the useful life of the structure itself, are not capitalized.

Remove the capitalized value and the associated accumulated depreciation of the replaced capital asset or original building component from the accounting records if the amounts are determinable, and capitalize the cost of the replacement. (Refer to Subsection 85.60.50.)

30.20.20.e

Renovations – Capitalization Threshold for Renovations

A renovation enhances an already existing asset to a condition beyond that which results from normal maintenance repairs, and/or increases the useful life of the asset. Replacing a roof, or installing a better electrical system in a building, are examples of renovations.

Any renovation to a building must meet the following criteria to be included in the fixed asset system:

1. The cost must be more than \$100,000.
2. The renovation must extend the useful life of the component.
3. The renovation must occur when 75% or more of the estimated useful life of the component being renovated has expired.

After determining that a renovation qualifies for inclusion in the fixed asset system, an additional test must be performed to determine whether the original component (being renovated) should be retired.

If the actual cost of the renovation is 75% or more of the replacement cost of the component at the time of completion, the original cost of the component should be retired.

Example:

Replace and upgrade the roof on the OGS Building. The estimated useful life of the roof is 20 years, the remaining useful life is 4 years, the replacement cost of the roof is \$500,000, and the

renovation actual cost is \$400,000.

Does the renovation meet the 75% of the useful life test? Expired life/useful life = $16/20 = 80\%$; answer is yes.

This renovation would be included in the fixed asset system.

Does the renovation meet the 75% of the replacement cost dollars? $\$400,000/\$500,000 = 80\%$; answer is yes.

The original component would be retired from the fixed asset system and a new asset recorded.

30.20.20.f **Bulk purchase** – For proprietary funds, bulk purchases of like capital assets with unit costs of less than \$3,000 *may* be capitalized as a group where the allocation of costs for the bulk assets over time is matched to the corresponding revenue generated by the bulk assets.

30.20.20.g **Collections** – Capitalize Art Collections, Library Reserve Collections, and Museum and Historical Collections when the conditions described in Subsection 30.20.22 are not met. Agencies meeting these conditions have the option of capitalizing their collections.

Library resources are capitalized and may be carried on the agency's property records as a single item.

30.20.22 Assets not capitalized

30.20.22.a Art Collections, Library Reserve Collections, and Museum and Historical Collections that are considered inexhaustible, in that their value does not diminish over time, are not required to be capitalized, if all of the following conditions are met:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.
- The collection is subject to an agency policy that requires the proceeds from sales of collection items to be used to acquire other items for the collections.

Agencies must be able to provide descriptions of the collections and the reasons the collections are not capitalized.

30.20.22.b While these collections are not required to be capitalized, they should be cataloged per Subsection 30.40.10.

30.20.30 Capital leases – definition

A capital lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in the ownership of property to the State. A lease must meet one or more of the following four criteria to qualify as a capital lease:

1. Ownership of the leased property is transferred to the State by the end of the lease term; or
2. The lease contains a bargain purchase option; or
3. *The lease term is equal to 75 percent or more of the estimated useful life of the leased property; or
4. *If, at the inception of the lease, the present value of the minimum lease payments, excluding executory costs (usually insurance, maintenance, and taxes paid in connection with the leased property, including any profit thereon) is 90 percent or more of the fair value of the leased property. (The interest rate to be used in computing the present value is available by contacting the Division of Financial and Personnel Services (DFPS), and is the

rate in effect at the execution date of the lease.)

*Neither the third nor the fourth criterion is to be applied when the inception of the lease (inception is the date of the lease agreement) occurs during the last 25% of the life of the asset.

If the lease meets any one of the above criteria, it is to be capitalized at the present value of the minimum lease payments. Minimum lease payments include:

- Minimum rental payments - Minimum payments the lessee is obligated to make to the lessor under the lease agreement (excluding executory costs).
- Guaranteed Residual Value - The residual value is the estimated fair market value of the leased property at the end of the lease term. The lessor often transfers the risk of loss to the lessee through a guaranteed residual value. The guaranteed residual value is the certain or determinable amount at which the lessor has the right to require the lessee to purchase the asset, or the amount the lessee guarantees the lessor will realize.
- Penalty for Failure to Renew or Extend the Lease - The amount payable that is required of the lessee if the agreement specifies that the lease must be extended or renewed and the lessee fails to do so.
- Bargain Purchase Option - An option given to the lessee to purchase the asset at the end of the lease term at a price that is fixed sufficiently below the expected fair market value so that, at the inception of the lease, purchase appears to be reasonably assured.

When lease agreements are capitalized, the property rights acquired under the lease are reported as an asset in the acquiring fund. For example, if the Bureau of Information Services (BIS) has a capital lease with a vendor for telecommunications equipment they lease to the Department of Human Services, BIS records the asset as theirs. BIS is also responsible for attaching the bar code.

Capital leases in governmental funds will be reported only in the government-wide financial statements. Capital leases for proprietary fund types will be reported in the fund-level and government-wide statements, similar to other assets of that type.

The threshold for capital leases is \$100,000, that is, if the net present value of the minimum lease payments, excluding executory costs (usually insurance, maintenance, and taxes paid in connection with the leased

property) is \$100,000 or greater, it is to be recorded. If the net present value is below that threshold, the asset is to be accounted for as an operating lease. If title to these assets transfers to the State at the conclusion of the operating lease, at title transfer they are to be capitalized and inventoried.

30.20.40**Accounting for capital leases****30.20.40.a**

Account for a capital lease as acquiring a capital asset and incurring a liability. (Refer to Subsections 85.60.70 and 85.72.30.) If the lease involves acquiring more than one asset, each asset is to be capitalized if its fair market value exceeds the threshold.

Account for a lease as an operating lease, when the net present value of the future minimum lease payments or fair value, whichever is lesser, is less than \$10,000. (Refer to Subsections 85.60.70 and 85.72.30.) If title to the leased asset transfers to the State at the conclusion of the operating lease, capitalize the fair market value of the asset upon receiving title pursuant to Subsection 30.20.20.

30.20.40.b

If a lease between State agencies meets the requirements of a capital lease per Subsection 30.20.30:

- The lessor agency is to treat the lease as a sales-type lease (record a sale on account and remove the asset from inventory); and,
- The lessee agency is to treat the lease as a capital lease (record a capital asset and a liability).

30.20.40.c

Capital leases are to be used only to acquire capital assets. (Refer to Subsection 30.20.20.)

30.20.50**Capital assets acquired through Certificates of Participation**

Capital assets acquired through a Certificate of Participation (COP) are to be capitalized in accordance with the State's capitalization policy. (Refer to Subsections 30.20.20, 85.60.80 and 85.72.40.)

30.20.60 Accounting for infrastructure

- 30.20.60.a In accordance with Governmental Accounting Standards Board (GASB) Statement Number 34, acquisitions of capital assets defined as infrastructure, which meet the State's capitalization policy, are to be capitalized.
- 30.20.60.b The State highway system, operated by the Department of Transportation, is classified by the State as Transportation Infrastructure-Modified Approach. Refer to Subsection 30.20.80.
- 30.20.60.c All transportation related infrastructure not included in Subsection 30.20.60.b and all non-transportation infrastructure assets are required to be depreciated. Refer to Subsection 30.20.70.

30.20.70 Depreciation policy

- 30.20.70.a Calculate and record depreciation for all depreciable capital assets (refer to Subsection 85.60.40). Non-depreciable capital assets include:
- Land;
 - The State highway system operated by the Department of Transportation, which is classified as Transportation Infrastructure-Modified Approach (refer to Subsection 30.20.80);
 - Art collections, library reserve collections, and museum and historical collections that are inexhaustible (refer to Subsection 30.20.22); and
 - Construction in progress.
- 30.20.70.b Depreciation normally begins when an asset is purchased or completed, and accepted. However, if an asset is not placed into service immediately, depreciation should begin when the asset begins to lose value. Either option should be applied consistently and should be reasonable in the circumstance. Depreciation may be calculated using either the straight-line or composite method.
- To calculate depreciation using the **straight-line method**:
$$\text{Annual Depreciation} = \frac{\text{Cost} - \text{Salvage Value}}{\text{Asset Useful Life}}$$
 - Calculate the **composite method** based on weighted average estimated lives or an estimate of the useful life of the grouping of assets, such as library resources. The assessment could be based on condition

assessments or experience with the useful lives of the groupings of assets.

- A consistent composite depreciation rate should generally be used throughout the life of the grouping of assets, but the rate should be recalculated if the composition of the assets or estimate of the useful lives changes significantly.

For example, if the average useful life of library resources, or portion thereof, is estimated to be 25 years, an annual depreciation rate of 4% would be used. The annual depreciation expense is calculated by multiplying the annual depreciation rate by the cost of the collection.

30.20.70.c

Useful Life for Capital Assets

Agencies should use the following recommended guide for assigning a useful life to an asset. However, different lives may be used if an agency has a compelling reason and the life assigned to an asset can be justified by historical experience. A brief explanation for the use of different lives must be on file with the State Controller's Office.

2-5 year property — includes computers and peripheral equipment, and computer software designed to cause a computer to perform a desired function;

5 year property — includes office machinery, automobiles, light and heavy general purpose trucks;

7 year property — includes office furniture and fixtures, agricultural machinery and equipment;

10 year property — includes building improvements such as a new roof, plumbing and electrical renovations, vessels and water transportation equipment;

15 year property — includes land improvements;

30-50 year property — includes residential and nonresidential real property such as buildings;

A more comprehensive list is referenced in Appendix 1 to this document. This list is from IRS Publication 946, "How to Depreciate Property," which can be found at <http://www.irs.gov/pub/irs-pdf/p946.pdf>.

30.20.70.d

Agencies are responsible for establishing and utilizing an appropriate useful life for assets acquired in less than new condition.

30.20.70.e For leasehold improvements, the useful life is the estimated service life of the leasehold improvements, or the remaining term of the lease, whichever is shorter.

30.20.80 Non-depreciable transportation-related infrastructure assets reported using the modified approach

The State capitalizes the State highway system as a class of infrastructure assets and reports these assets using the “modified approach” to depreciation. Under the modified approach, these infrastructure assets are not depreciated as long as two requirements are met:

1. The assets are managed in an asset management system, which includes keeping an up-to-date inventory of assets, performing condition assessments of the assets and summarizing the results, and estimating the annual amount to maintain and preserve the assets.
2. The State documents that the assets are being preserved approximately at or above the condition level established and disclosed previously by the State.

30.30

Marking and Identifying Capital Assets

30.30.10 Mark all inventorial capital assets

Inventorial capital assets are described in Subsection 30.40.10.

Mark all inventorial capital assets upon receipt and acceptance to identify that the property belongs to the State of Maine, except as noted in Subsection 30.30.30.

This identification should:

- Facilitate accounting for the asset;
- Aid identification if the asset is lost or stolen;
- Discourage theft; and ultimately,
- Reduce the magnitude of the State's property losses.

30.30.20 How capital assets should be marked

30.30.20.a Permanently affix the identification information to the asset by using a standardized adhesive tag or inscribing the asset according to the following format:

- STATE OF MAINE (or State seal insignia),
- AGENCY NAME (or authorized abbreviation or agency number),
- BAR CODE, and
- ASSIGNED CONTROL NUMBER

If an existing capital asset displays only a State control number, which has been assigned, properly affixed, and recorded on an authorized inventory system pursuant to Subsection 30.40.10, it does not need to be retagged.

30.30.20.b Agencies may determine where to place the "State of Maine " identification and control number on the capital asset. However, the identification and control number should be located on the principal body of the asset, rather than a removable part.

30.30.30**When it is OK not to mark a capital asset**

Occasionally, an agency will find it is impractical or impossible to mark some of its inventoried capital assets according to these standards. For example, where a capital asset:

- Would lose significant historical or resale value (such as collections of art, museum or historical items);
- Would have its warranty negatively impacted by being permanently marked;
- Is stationary in nature and not susceptible to theft (such as land, infrastructure, buildings, improvements other than buildings, and leasehold improvements); or
- Has a unique permanent serial number that can be used for identification, security, and inventory control (such as vehicles).

In these cases, the identification “State of Maine” or State seal insignia is not required, and the agency is to apply alternative procedures to inventory and identify such assets as “State of Maine.”

Leased assets (capital or operating) should only be permanently marked with the identification upon formal transfer of ownership to the State.

30.30.40**Production of the capital asset inventory (bar code) tags**

Agencies are to order their capital asset inventory (bar code) tags from the OSC. Agencies are required to use tags bearing a bar code for ease of inventory control.

30.30.50**Capital asset inventory tags and control numbers need to be controlled****30.30.50a**

Responsibility for controlling capital asset control numbers rests with the agency’s inventory officer.

30.30.50b

Agencies are to ensure that adequate controls are established for safeguarding unissued, mutilated, and voided capital asset inventory tags.

30.40

Capital Asset Inventory Records Policy

30.40.10 Which assets need to be inventoried or cataloged?

The following assets are inventorial assets and must be carried on the property records of an agency:

- All assets meeting the State's capitalization policy (refer to Subsection 30.20.20),
- Assets with a unit cost (including ancillary costs) less than \$3,000 identified as small and attractive assets (refer to Subsection 30.40.20 below),
- Art collections, library reserve collections, and museum and historical collections that meet the criteria in Subsection 30.20.22, which are not required to be capitalized, are required to be controlled by means of a perpetual inventory or a recognized cataloging system, and
- Collections under the control of a State historical society are required by to be cataloged.
- Trust lands are to be accounted for by the administering agency.

30.40.20 Small and attractive assets

Each agency should perform a risk assessment (both financial and operational) on the agency's assets to identify those assets that are particularly at risk or vulnerable to loss. Assets so identified, that fall below the State's capitalization policy, are considered small and attractive assets. Each agency should develop written internal policies for controlling small and attractive assets.

The agency should implement specific measures to control small and attractive assets to minimize identified risks. Periodically, the agency should perform a follow-up risk assessment to determine if the additional controls implemented are effective in managing the identified risks.

Agencies must include as small and attractive assets all items in the commodity class code major group 5000 – Weapons, Firearms, Signal Guns & Accessories. Otherwise, agencies have discretion in setting their definition of small and attractive assets. However, absent a risk assessment and development of written policies for identifying and controlling small and attractive assets, we recommend that agencies include the following assets with unit costs of \$300 or more as small and attractive:

- Communications Equipment, Public Safety: Audio and Video;
- Optical Devices, Binoculars, Telescopes, Infrared Viewers, and Rangefinders;
- Cameras and Photographic Projection Equipment;
- Microcomputer Systems, Laptop and Notebook Computers;
- Other IT Accessorial Equipment and Components (Scanners, Data Displays, etc.);
- Office Equipment;
- Record Players, Radios, Television Sets, Tape Recorders, VCRs, and Video Cameras, Home Type.

30.40.30 Inventory records requirements

Agencies are to maintain capital asset inventory systems that include records for all inventorial assets.

Agencies are to use the MFASIS Fixed Asset Management System for all assets that meet the State's capitalization policy. Agencies may use an alternate in-house system for local analysis and tracking; however, the official asset record is the MFASIS Accounting System.

For assets defined as small and attractive, agencies may use MFASIS. Future enhancements of the MFASIS system will include a more flexible fixed asset module for controllable property.

Agency Name and Code Number - The agency name and three digit agency code number.

Account - For proprietary and trust fund type accounts, this is the account in which the asset is being used. This may or may not be the original purchasing account.

For governmental fund type accounts, this is the account that originally purchased the asset.

For those assets acquired prior to July 1, 1982, for which an account cannot be identified or is no longer in existence, such assets are to be identified as assets of the General Fund.

Acquisition Date - The date the agency takes title to, or assumes responsibility for, an asset.

Cost - The total cost (value) assigned to the asset. Refer to Subsection 30.20.10 for clarification.

Depreciation - The portion of the cost of a capital asset representing the expiration in the service life of the asset attributable to wear and tear, deterioration, action of the physical elements, inadequacy, and/or obsolescence which is charged systematically over the useful life of the capital asset. Refer to Subsection 30.20.70. This element is not applicable to small and attractive assets.

Description - Name of the asset.

Disposal Authorization - When required, the Bureau of General Services must grant an agency the authority to dispose of an asset or as provided by specific statutory authority.

Inventory Control Number - The control number inscribed on, or contained on the inventory tag attached or referring to, an asset.

Location Code - The identification code of the county in which the asset is located.

Salvage Value - The estimated portion of a capital asset's cost that is recovered at the end of its service life less any disposal costs. This element is not applicable to small and attractive assets.

Useful Life - The estimated useful life of the capital asset in years. This element is not applicable to small and attractive assets.

30.40.40

Adding capital assets to the inventory

Upon receipt and acceptance of a capital asset, the agency property officer is responsible for supervising the addition of the asset to the inventory

system. This includes assigning tagging responsibilities to specific individuals as well as developing and implementing procedures to ensure that the necessary information is entered into the agency's capital asset inventory system.

30.40.45 Removing capital assets from the inventory

Agencies are to adopt internal policies and procedures consistent with those promulgated by the Office of the State Controller and the Bureau of General Services regarding the timely removal of capital assets from inventory, including procedures for the proper approval of disposal requests.

Capital assets are to be removed from active inventory based on the completion of a Property Disposal Request.

Agencies are to maintain records of capital asset dispositions in accordance with approved agency records retention schedules.

When disposing of and removing capital assets from inventory, agencies are to follow policies and guidelines issued by the Office of the State Controller and the Bureau of General Services, or other specific statutory guidance.

30.40.80 Lost or stolen property

When suspected or known losses of inventorial assets occur, agencies should conduct a search for the missing property. The search should include transfers to other divisions or agencies, storage, scrapping, conversion to another asset, etc. If the missing property is not found:

- Follow the loss procedures in Section 20.30.
- Have the individual deemed to be primarily responsible for the asset, as well as that individual's supervisor, complete and sign a Property Disposal Request. Include on the Request a description of events surrounding the disappearance of the property, who was notified of the loss, and steps taken to locate the property. Remove the lost or stolen property from the agency's inventory and accounting records where applicable (refer to Subsection 85.60.50).

Maintain records for losses of inventorial assets in accordance with approved agency records retention schedules.

30.45

Capital Asset Physical Inventory Policy

30.45.10 Physical inventory frequency

Conduct physical inventories annually for all inventorial assets except as noted below.

Due to the stationary nature of certain assets (such as land, infrastructure, buildings, improvements other than buildings, and leasehold improvements), performing a physical inventory annually is not required.

Agencies may conduct their capital assets inventory on a revolving basis if the following conditions are met:

- Every item is subject to a physical count or verification at least once every three fiscal years.
- The inventory program is documented and the plan has been approved by the OSC.

For art collections, library reserve collections, library resources, and museum and historical collections (which are safeguarded and maintained through a perpetual or cataloging system), agencies are to perform a physical inventory of these assets at least once every three years if practical. If not, they are to be periodically sampled on a revolving basis or physically inventoried via accepted industry standards.

30.45.20 Who should conduct and verify the physical inventory?

In order to ensure objective reporting of inventory items, a physical inventory should be performed by personnel having no direct responsibility (custody and receipt/issue authority) for assets subject to the inventory count. If it is not feasible to use such personnel for any part of the inventory, then those portions are, at least, to be tested and verified by a person with neither direct responsibility for that portion of the inventory nor supervised by the person directly responsible.

30.45.30**Physical inventory instructions**

Written physical inventory instructions must be documented and distributed to each person participating in the inventory process. The instructions should describe:

- How and where to record each item,
- What information to record,
- What to do when they have a question,
- What procedures to follow when they finish their assignments,
- What procedures to follow when equipment is located but not listed,
- The procedure by which the person counting the assets attests to the accuracy of the count, such as by signing his or her name at the bottom of each inventory page, or signing a cover page for a group of pages sorted by another method (batches, location, equipment type, etc.), and
- How to record assets not being used or in an obviously unserviceable condition.

30.45.40**Physical inventory reconciliation**

After the physical inventory count is completed, the agency inventory officer is to conduct the reconciliation process. When all differences have been identified and explained, the inventory is considered reconciled.

Agencies should conduct the following steps during the reconciliation process:

- Search the inventory lists to determine whether inventory noted during the count as unrecorded is, in fact, listed on another portion of the inventory.
- Enter unrecorded assets into the fixed asset system as soon as possible after discovery.
- If a significant number of unrecorded assets are located, indicating a major problem with the asset recording procedures, the agency property officer is to determine why the problem is occurring and correct it.
- Conduct a search in an effort to locate missing assets. For those assets not located, inventory officers are to follow procedures outlined in Subsection 30.40.80.

After the inventory is reconciled, the agency inventory officer is to certify the reconciliation with a statement and signature that it is correct and report this to the supervisor. If the certification cannot be made, the inventory officer is to disclose that fact and the supervisor is to determine the appropriate course of action.

30.45.50**Retaining physical inventory records**

The certification, together with the reconciliation and the inventory listing, serves as the support for the inventory balance and for accounting adjustments, if any, and must be retained by the agency. The agency should retain this documentation in accordance with the approved agency records retention schedules.

30.50

Capital Asset Types

30.50.10 Buildings and fixtures – Type B

Buildings are any structure permanently affixed to land. Fixtures are any attachment permanently affixed to buildings.

The State acquires ownership rights in buildings through purchase, construction, donation, bargain purchase, or tax foreclosure.

When buildings are purchased, the cost should include the purchase or contract price of all permanent building structures plus any ancillary costs of acquisition such as attorney fees, appraisers, and financial advisors, and other expenditures necessary to put a building into its intended state of operation.

If a building is being constructed, the 'Construction in Progress' account will contain the current value of construction costs. See 'Construction in Progress' section for more information. After the building is constructed, the building asset is created and the 'Construction in Progress' asset is deleted.

If a building is acquired by gift or bargain purchase, the building account should reflect the fair market value at the date of acquisition. Note: a *bargain purchase* is a purchase priced significantly lower than the accepted fair market value.

If land has existing structures and these structures are demolished (razing), it is management's intent, at the time of acquisition that will determine how to record the demolition cost.

1. The intent, at the time of acquisition, is *to demolish* the building – capitalize the demolition cost as part of the land. (See Land section)
2. The intent, at the time of acquisition, is *to keep* the building and a future decision is made to demolish the building – if constructing a new building, then the demolition cost is capitalized as a component of the new building; otherwise, it is an indirect expense and considered a period cost (expensed immediately).

During the construction period of the new building, interest is considered part of the cost of the building and should be capitalized as part of the building cost for proprietary accounts (business-type activities).

Improvements to buildings are generally absorbed into the value of the building and, unlike land, are not carried in separate asset accounts. The valuation of improvements to the asset includes all costs incurred to complete the improvement.

30.50.20 Construction in progress – Type C

This account represents temporary capitalization of *labor, materials, and direct overhead* costs of a construction project.

When constructing an asset, the following costs are appropriate to record as Construction In Progress (CIP) until this constructed asset is placed into use:

1. All *direct costs* are included in the total cost of the asset.
2. *Interest costs* may be capitalized as part of construction cost of the capital assets for proprietary funds.

As construction progresses, the cumulative expenditures are capitalized as Construction in Progress. Upon completion of the capital asset, the balance in this specific CIP account is manually transferred to an appropriate asset type such as "Buildings." After the creation of this new asset type, the related CIP is deleted from the Fixed Assets Subsystem.

Tracking of these costs is made easier with the 'Project' subsystem within MFASIS. The 'Project' subsystem is a tool to post and monitor expenditures directly relating to a specific construction project. As the payment is made within MFASIS and a Project name/number is referenced, the cost is accumulated with other costs of the same Project name/number. A query on this Project name/number would give the total charged to the Project.

Self-constructed assets *should not* be recorded at a cost higher than what an outright purchase of a similar asset would cost. The portion of cost that is higher than the purchase price of a similar asset should be recorded as a period expense.

Interest costs are *not* capitalized in the governmental funds.

Interest costs on debt used *during* capital construction for enterprise funds are to be capitalized. The capitalization starts from the date of the borrowing through the date the asset is ready for its intended use.

Interest earned on unspent money, borrowed for this same period, reduces the amount to be capitalized. The basic, private-sector guidance on interest capitalization can be found in FASB Statement No. 34, *Capitalization of Interest Cost* and FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*.

30.50.30 Equipment and furniture – Type E

This account includes tangible property of a more or less permanent nature, which is useful in carrying on operations, except for land, buildings, improvements other than buildings, vehicles, and construction in progress. Some examples are machinery, furniture and furnishings, heavy tools, laboratory equipment, photographic equipment, and copiers.

Equipment with an original acquisition cost of \$3,000 or more should be recorded as a capital asset. Software that is included with a new PC (already installed) is considered part of the PC.

When equipment is purchased, the cost should include the amount of money ultimately paid, including ancillary charges such as transportation, installation, and any other expenditure required to place the asset in its intended location and condition for use.

Judgment should be used in capitalizing ancillary charges; it is not desirable to allocate immaterial amounts, such as freight charges. These costs should be expensed when they are not material or not efficient to allocate.

30.50.40 Historical treasures and works of art – Type H

Historical treasures and works of art should be capitalized at their historical cost or fair market value at the date of donation/purchase. However, governments are encouraged, *but not required*, to capitalize these items if all the following conditions are met. The collection is:

1. Held for public exhibition, education, or research in furtherance of

public service, rather than financial gain.

2. Protected, kept unencumbered, cared for, and preserved.
3. Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

30.50.50 Improvements other than buildings – Type I

This account reflects acquisition value of depreciable improvements, other than buildings, which adds value to land. Examples of such improvements are:

1. Fences;
2. Retaining walls;
3. Pavement, such as parking lots and airport runways;
4. Picnic equipment; and,
5. Monuments.

Cost includes purchase price, contract price, or job order cost, professional fees of architects, site preparation costs and any other expenditure necessary to place the improvement into its intended state of operation.

This type of capital asset is also used for leasehold improvements. If an improvement greater than \$3,000 is made to a leased capital asset (leasehold improvement), depreciate the improvement over the lesser of the life of the improvement *or* the remaining life of the original asset.

30.50.60 Land – Type L

Land is real property, excluding buildings, for which title is held by the State. Certain types of assets relating to land are not real property but are considered permanent and therefore not depreciable. These include easements, rights of way, and water rights. They are treated and capitalized as land assets.

There is no minimum threshold for land. *All land must be recorded.*

The recorded cost of land includes purchase price, FMV if the land was donated, or FMV if the land was purchased at a bargain purchase option, *plus* any ancillary costs at the time of acquisition. Ancillary costs include,

but are not limited to:

1. Legal and title fees;
2. Closing costs;
3. Appraisal and negotiation fees;
4. Surveying fees;
5. Damage payments; and,
6. Site-preparation costs (clearing, filling, leveling, landscaping and grading).

If management's intent, at the time of acquisition of land containing a building, is to demolish the building (razing), then the cost of demolition would be included in the capitalized value of the land. See Building Section for other types of razing.

"Land Held for Resale," either purchased or obtained through tax foreclosure, is considered inventory for accounting purposes. Land, either purchased or obtained through tax foreclosure, intended to be retained for government use, is capitalized as Land.

If land is acquired by exercise of the right of eminent domain, the award to the landholders becomes the equivalent of the purchase price and is treated similarly to land purchased.

30.50.70 Infrastructure – Type S

Infrastructure assets are long-lived, capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. The following items are examples of infrastructure assets (this list is not meant to be exhaustive):

- Highways
- Bridges
- Tunnels
- Drainage systems
- Water and sewer systems
- Dams
- Lighting systems
- Piers

- Wharves/docks
- Weirs
- Marinas
- Boat ramps
- Outdoor swimming pools
- Radar and radio towers
- Incinerators
- Recreation structures

Certain assets may be an ancillary part of the infrastructure network or subsystem and recorded as infrastructure. Networks/subsystems are comprised of all assets that provide a particular type of service/function for the State. Some examples of infrastructure networks/subsystems include:

1. Roadway curbs, sidewalks, signal lights, guard rails, etc.;
2. Rest area facilities associated with a turnpike/interstate;
3. Road maintenance structures such as shops and garages associated with a highway system; and,
4. Water pumping buildings associated with water systems.

30.50.80 Intangible assets – Type T

Intangibles are assets that are not physical in nature but convey rights to the State. Intangibles include; patents, copyrights, and franchises. Easements, rights of way, and water rights are considered **land** assets.

Intangibles, like tangible assets, are recorded at cost and amortized over their useful lives. Cost includes all costs of acquisition and expenditures necessary to make the intangible asset ready for its intended use; such as purchase price, legal fees, and other incidental expenses.

APB Opinion No. 17 "*Intangible Assets*," enumerates these factors that may be considered in determining useful life.

1. Legal, regulatory, or contractual provisions.
2. Provisions for renewal or extension.
3. Effects of obsolescence.
4. A useful life may parallel the service life expectancies of individuals or groups of employees.

30.50.90**Vehicles and vessels (air/land/water) – Type V**

This category includes trucks, cars, vessels and other rolling stock. The cost includes the purchase cost, expenditures for significant improvements and any other necessary expenditures required to place the asset into its intended state of operation. Working equipment, such as bulldozers, are considered equipment, not vehicles.

30.50.100**Controllable non-capital – Type X**

The State owns small and attractive assets that fall below the capitalization threshold. Agencies may own assets that fall below the capitalization threshold but are otherwise attractive. Examples of this type of asset include weapons, cameras, computers, etc.

30.60

Capital Asset Definitions

30.60.10 Definitions

Agency:

Unless otherwise provided by Statute, operational units of State government consisting of every agency; office; institution, department, division; board; or commission.

Amortization:

The gradual reduction or liquidation of an amount over a period of time according to a specified schedule either by a direct credit, or debit; or through the use of a valuation account.

Ancillary Costs:

Costs directly attributable to asset acquisition, such as freight and transportation costs, site preparation costs, and professional fees that are necessary to place a capital asset into its intended state of operation. Ancillary costs are capitalized as part of the cost of a capital asset; however, minor ancillary costs may be expensed.

Examples of ancillary costs include:

1. Buildings and Improvements - Professional fees of architects, attorneys, appraisers, financial advisors, etc.; damage claims; costs of fixtures permanently attached to a building or structure; insurance premiums, interest, and related costs incurred during construction; other expenditures necessary to place a building or structure into its intended state of operation.
2. Equipment - Transportation charges, installation costs, and any other normal and necessary expenditures required to place the asset into its intended state of operation.
3. Land - Legal and title fees, surveying fees, appraisal and negotiation fees, damage payments, site preparation costs, and costs related to demolition of unwanted structures.

Art Collection:

An individual work of art or group of items of original artwork such as paintings, sculptures, craftwork or other materials commonly identified as a work of art. Art collections that are considered inexhaustible and meet certain criteria are not required to be capitalized. Agencies meeting the criteria for not capitalizing a collection have the option of capitalizing art collections as non-depreciable capital assets. Art collections that are exhaustible (such as those whose useful lives are diminished by display or educational/research applications) are to be capitalized and depreciated.

Betterment:

An addition made to, or change made in, a capital asset, other than maintenance, that is anticipated to prolong its expected useful life or to increase its capacity, efficiency, or quality of output. Betterment's include extraordinary repairs or improvements to an existing capital asset.

Book Value:

The net amount at which an asset or asset group appears on the books of account, as distinguished from its market or intrinsic value. In the case of assets subject to reduction by valuation allowances, book value refers to cost or stated value less the appropriate allowance.

Building:

A capital asset reflecting the acquisition costs of a permanent structure, *excluding land*; any roofed structure used for permanent or temporary shelter of persons, animals, vegetation, or equipment.

Building Improvement:

Improvements pertain not only to structures, but also associated items, such as loading docks, heating and air-conditioning systems, and all other property permanently attached to, or an integral part of, the structure.

Capital Asset:

Asset(s) that meet the State's capitalization policy such as land, improvements to land, easements, buildings, leasehold improvements, vehicles, machinery, equipment, works of art and

historical treasures, infrastructure, and all other tangible or intangible assets that are used in State operations and that have initial useful lives extending beyond one year, and original acquisition values above specified thresholds. Capital assets do not include depletable resources such as minerals or timber.

Capital Lease:

A lease of an asset that treats the assets as being owned. A lease of this nature must be capitalized if it meets the criteria detailed in *FASB-13*.

Composite Method:

A method used to calculate depreciation expense that groups similar assets (such as library resources) or dissimilar assets of the same class (such as all roads and bridges in a park) using the same depreciation rate.

Construction:

All associated cumulative costs (i.e. design, survey, fixtures, etc.) related to a capital project that results in a capital asset of the State. Upon completion of the capital project, that is, the point at which the asset is placed in service for its intended use, the balance in the construction in progress account is transferred to an appropriate asset account such as buildings.

Construction in Progress:

A capital asset reflecting the cost of construction work undertaken but not completed at the end of the accounting period.

Cost:

The amount of money or other consideration exchanged for property or services; or the historical cost of an asset/investment at the time of acquisition, including any ancillary costs (e.g., legal fees and commissions) but excluding any purchased accrued interest, unless a new cost has been assigned based upon a permanent decline in value.

Depreciable Capital Asset:

Capital asset(s) that are depreciated because they are exhaustible (i.e., their useful lives diminish over time). Exceptions include infrastructure assets reported using the modified approach.

Depreciation:

Expiration of the useful life of capital assets, other than depletable assets, attributable to wear and tear, deterioration, action of the physical elements, inadequacy and obsolescence, which is charged off during a particular period. In accounting for depreciation, the cost of a capital asset, less any salvage value, is prorated over the estimated useful life of such an asset.

Distributed Assets:

Substantial number of assets, owned by the same Agency, that are geographically dispersed.

Donated Asset:

Asset(s) acquired by gift, donation, or payment of a nominal sum that is not reflective of the asset's true market value. The cost assigned to donated assets is the fair market value at time of acquisition plus all appropriate ancillary costs. If the fair market value is not practicably determinable (e.g. due to lack of sufficient records) estimated costs must be used.

Eminent Domain:

The power of a government to acquire private property for public purposes. It is frequently used to obtain real property that cannot be purchased from owners in a voluntary transaction. Where the power of eminent domain is exercised, owners are compensated by the State in an amount determined by the courts.

Equipment:

Tangible property other than land, buildings, improvements other than buildings, or infrastructure, which is used in operations and with a useful life of more than one year. Examples are machinery, vehicles, tools, computers and electronic devices, and furnishings. Equipment may be attached to a structure for purposes of securing the item, but unless it is permanently attached to, or an integral part of, the building or structure, it is to be classified as equipment and not buildings.

Executory Costs:

Costs associated with leased tangible assets such as insurance, maintenance, or tax expenses.

FA Document:

A capital asset document used to record a new capital asset on the MFASIS Fixed Assets Subsystem.

FB Document:

A capital asset document used to record a betterment to an existing asset on the MFASIS Fixed Assets Subsystem.

FC Document:

A capital asset document used to modify the asset information (description, serial number, value, dates, etc.) on the MFASIS Fixed Assets Subsystem. This is also used to transfer assets to Surplus Property.

FD Document:

A fixed asset document used to record the disposition of an asset on the MFASIS Fixed Assets Subsystem.

Fair Value:

The amount that could reasonably be expected to be received for an asset/investment in a current sale between a willing buyer and a willing seller.

Financial Accounting Standards Board (FASB):

The authoritative body that establishes standards of financial accounting and reporting for private enterprise (applicable to proprietary funds).

Fixed Assets Subsystem:

A component of the MFASIS accounting system, which is used to record and track the State's capital assets.

Fixture:

Attachment(s) to buildings that are not intended to be removed and which cannot be removed without damage to the buildings. Those fixtures with a useful life presumed to be as long as that of the building itself are considered a part of the building and should be capitalized as part of the building value; all others are classified and capitalized as equipment.

Furniture:

Movable articles in a room or establishment that render it fit for working or living, including items such as chairs, tables, cabinets, bookcases, etc.

General Fixed Assets:

Fixed assets that are not assets of any fund, but of the government as a whole. Most often, general fixed assets are acquired through the expenditure of the financial resources of governmental funds. General fixed assets include all fixed assets not accounted for in proprietary funds or trust funds.

Generally Accepted Accounting Principles (GAAP):

Uniform minimum standards and guidelines for financial accounting and reporting, which govern the form and content of the financial statements of an entity. GAAP encompass the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provide a standard by which to measure financial presentations. The primary authoritative body on the application of GAAP to State and local governments is the Governmental Accounting Standards Board (GASB).

Governmental Accounting Standards Board (GASB):

The authoritative accounting and financial reporting standard-setting body for government entities.

Historical Cost:

Original acquisition cost of an asset, including all ancillary costs involved in putting that asset into its intended use.

Improvement:

An addition, alteration, betterment or structured change to an asset that results in its greater durability, extended useful life, or compliance with current code of regulations.

Improvements Other Than Buildings:

Capital assets that reflect the cost of permanent improvements other than buildings and infrastructure that do not relate to the State highway system, which add value to land such as parking lots,

fences and retaining walls.

Infrastructure:

Long-lived, capital assets that are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, sidewalks, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. With the exception of the State highway system operated by the Department of Transportation, which uses the modified approach to depreciation, infrastructure assets are to be depreciated.

Intangible Asset:

Asset that is not physical in nature. Examples include water rights, air rights, rights of ways, and easements.

Inventorial Asset:

Asset required to be recorded, either because they meet the criteria of a fixed asset or because they are items considered to be particularly vulnerable to loss.

Inventory:

The process of preparing an itemized list recording land, buildings, equipment and other tangible property.

Land:

A fixed asset that reflects the value of land properties, including rights of way, owned by the State. If land is purchased, its capitalized value includes the purchase price plus costs, such as legal fees, and filling and excavation costs, incurred to put the land in condition for its intended use. If land is acquired by gift, its capitalized value is to reflect its fair value at time of acquisition.

Leasehold:

The right to the use of real estate by virtue of a lease, usually for a specified term of years, for which consideration is paid.

Lease Purchase Agreement:

A contractual agreement, which is termed a “lease” but, in substance, is a purchase contract.

Library Reserve Collection:

Items of historical or literary significance, such as documents, maps, photos, and original books. Collections that are considered inexhaustible and meet certain criteria are not required to be capitalized; however, agencies have the option of capitalizing them as non-depreciable capital assets. Collections that are exhaustible (such as those whose useful lives are diminished by display or educational/research applications) are to be capitalized and depreciated

Machinery:

See Equipment.

Maintenance:

Day-to-day, routine, normally recurring repair and upkeep. Maintenance activities keep an asset in good working condition throughout its estimated useful life.

Minimum Lease Payment:

Minimum present value payments the lessee is obligated to pay or expected to pay in connection with the property, excluding executory costs.

Museum and Historical Collection:

An individual item or group of items of historical or natural history significance. These items could be located in State museums or in any State agency. They include items such as photographs, negatives, letters, blueprints, antique furniture, historical documents, miscellaneous artifacts, and other similar items. Collections that are considered inexhaustible and meet certain criteria are not required to be capitalized; however, agencies have the option of capitalizing them as non-depreciable capital assets. Collections that are exhaustible (such as those whose useful lives are diminished by display or educational/research applications) are to be capitalized and depreciated.

Property Officer:

Agency designee who is responsible for fixed assets including, but not limited to, asset training, records retention, inventory, reconciliation, and certification.

Razing:

To level (structures) to the ground.

Reconciliation:

The process of correlating one set of records with another set of records and/or a physical inventory count that involves identifying, explaining, and resolving differences.

Repair:

Expenditure made to maintain an asset in operating condition, recorded as an expenditure in the accounting period incurred, on the basis that it is the only period benefited.

Replacement Cost:

The amount of cash or other consideration that would be required at a certain date to obtain an asset, or its equivalent, that can render similar service (but which need not be of the same structural form) as the property to be replaced.

Salvage Value:

An estimate of the amount that will be realized at the end of the useful life of a depreciable asset.

Small and Attractive Asset:

Asset that does not meet the State's capitalization threshold but that an agency considers particularly vulnerable to loss, thus subject to special property control.

Straight-line Method:

Under the straight-line method, amortization is prorated in equal dollar amounts to interim periods throughout the life of an asset. The straight-line method of depreciation allocates the cost of a capital asset systematically over the useful life of the asset by way of the following formula: (cost less salvage value, divided by estimated useful life in years).

Useful Life:

An estimate of the total time that an asset is usable and in service.

30.70 Appendices

30.70.10 **Appendix I – IRS table of class lives/recovery periods**

Available at <http://www.irs.ustreas.gov/pub/irs-pdf/p946.pdf>.

30.70.20 **Appendix II – surplus property fixed asset guidelines**

SURPLUS PROPERTY FIXED ASSET GUIDELINES

These procedures, effective May 15, 2003, clarify Surplus Property's role in the reception and disposal of the State's fixed assets, provide accountability for agencies and Surplus Property through this part of the asset cycle, and address issues related to sales and reimbursement of funds to agencies.

RECEIVING:

1. Surplus Property will receive an FC report from the OSC. This report indicates what assets have been recently transferred to Surplus Property via MFASIS. Once the report is received, Surplus will contact the agency to schedule a pick up or arrange for a delivery from the agency. Once physically received by Surplus, an FC is performed accepting the asset. Receiving staff must provide administrative staff with the FA # to accomplish an FC.
2. If an agency delivers assets to Surplus, these need to be scheduled whenever possible. However, it is inevitable that agencies will show up unannounced. If this occurs and fixed assets are contained in the delivery, receiving staff must verify that an FC Report was received for the assets. If not, this must be brought to the attention of the supervisor or manager.
3. When picking up at agencies, Surplus staff must have the FC Report and verify the assets are present. Surplus will pick up only the assets which have been transferred on the FC Report.
4. When pick-ups or deliveries are being scheduled, staff must ask whether there are any fixed assets and if so, whether an FC has been done. Staff must also inform the agency that the assets must be segregated from all other property for ease of verification.

5. If an agency claims an asset has already been sent to Surplus, this claim needs to be supported with a BP- 84 (Surplus Property Transfer Document). If there is no supporting documentation, the agency must be informed that the asset will be considered lost and an FD will be performed.
6. In all instances of pick-ups or deliveries, whether or not fixed assets are involved, the agency MUST submit a BP - 84 with verification by Surplus staff of all items.
7. Upon verification of assets, the FA # and serial # of the asset must be provided to administrative staff who will maintain a database indicating when the asset was received, agency, contact name and phone #, description, FA #, serial #, agency account #s, disposal date and sold price, if sold. On occasion, assets may be transferred from one State agency to another and must be duly recorded on MFASIS.

SALES/DISPOSAL:

1. When an asset is sold, the FA # must be recorded on the sales slip. If it is an obvious asset and the FA # is not present, the serial # must be recorded, with the agency name and account numbers, if available. This should only apply to property currently in our inventory and would exclude future inventory provided the process is followed.
2. The Bureau of Information Services (BIS) has a lease program for computer equipment. The equipment is capitalized and is considered a fixed asset and must be managed accordingly. If, within existing inventory, the FA # is not provided, the serial # and agency name must be recorded on the sales slip for BIS equipment. Equipment from other agencies; such as, PCs, monitors, printers, fax machines, etc. are not supposed to be on the MFASIS Fixed Asset system. These should have been purged from the system.
3. When a sales slip is greater than \$50.00 for a single item, the agency account numbers must be recorded on the slip. Property sold as a combination such as computer packages must be noted on the sales slip that only the sale of the CPU is to be reimbursed at 88% to the agency.
4. Once a sale is completed or an asset is destroyed, the FA # needs to be provided to Surplus administrative staff to perform an FD on the Fixed Asset system which is the final step in the process.

Fixed assets in general - GASB's Codification of Governmental Accounting and Reporting (COD) 1100.106 and 1100.107; 1400 (all); Audits of State and Local Governmental Units, (AICPA), 10.19 and 13.12.

Internal Control - AICPA Audit and Accounting Manual (as of June 1, 1996, Section 12,010; NCGA Statement 1.

Capital Leases - GAAP, FAS-13, *Accounting for Leases*.

Intangible Assets - FASB's Concepts Statement No. 6, *Elements of Financial Statements*; APB Opinion No. 17, *Intangible Assets*.

Capitalization of Interest - FASB Statement No. 34, *Capitalization of Interest Cost*; and FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*.

Recommended Practices for State and Local Governments, approved by Government Finance Officers Association, March 1997

Surplus Property Procedures – Title 5, Section 1811.

Intermediate Accounting 8th ed. Dr. Donald Kieso and Dr. Jerry Weygandt, 1995

Governmental Accounting, Auditing, and Financial Reporting (Using the GASB 34 model), approved by Government Finance Officers Association.

Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, GASB 34

2002 GAAP Guide for State and Local Governments, Larry Bailey 2002

Excerpts from Massachusetts' Fixed Asset Subsystem Policy Manual and User Guide – Part 1, April 2003

Internal control standards – Title 5, Section 1541, Subsection 10-A